

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 97-262-W/S - ORDER NO. 98-575  
AUGUST 1, 1998

IN RE: Application of Harbor Island Utilities, Inc. for Approval ) ORDER  
of an Increase in its Rates and Charges for Water ) APPROVING  
Service Provided to it Customers in South Carolina ) RATES AND  
 ) CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by Harbor Island Utilities, Inc. (Harbor Island or the Company) for an increase in its rates and charges for water service provided to its customers in Beaufort County, South Carolina. This Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended and 26 S.C. Regs. 103-821 (1976), as amended.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South

Carolina (the Consumer Advocate).

On June 25, 1998, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three (3) Commissioners, Commissioners Bradley, Scott, and Saunders, was designated to hear and rule on this matter. Commissioner Bradley presided. The Company was represented by Nicholas Felix, Esquire; the Intervenor, Consumer Advocate for the State of South Carolina was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

The Company presented the testimony of R. Arnold Ellison. The Commission Staff presented the testimony of William P. Blume, Accounting Manager, and Charles A. Creech, Utilities Engineer. One member of the public was heard on the issues in the case.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

#### **FINDINGS OF FACT**

1. Harbor Island provides water and wastewater services to 324 customers on Harbor Island in Beaufort County, South Carolina. It appears from the records that the Company is presently operating under water rates set by Order No. 90-152, issued in Docket No. 88-608-W. The present sewerage rates were set by Order No. 91-413, issued in Docket No. 90-560-S.

2. With regard to Harbor Island's present rates, the water user fees for residential service for a one-inch meter are \$23.00 per month for 0 to 2,000 gallons and \$2.50 per 1,000 gallons for water over 2,000 gallons. For commercial water service, user fees for a one-inch meter are \$35.00 per month for 0-2,000 gallons and \$2.50/1,000 gallons for water over 2,000 gallons. For landscape irrigation, the user fees are \$23.00 per month for 0-2,000 gallons for a one-inch meter and \$2.50/1,000 gallons for water over 2,000 gallons. For multiple Residential units, there is a minimum monthly charge of \$20.00 per unit for 0-2,000 gallons per unit. For any excess over 2,000 gallons the number of units is multiplied by \$2.50 per 1,000 gallons. User fees for sewerage services are \$20.00 month for residential customers and \$20.00 minimum for 10,500 gallons and \$1.40 per 1,000 gallons excess usage for commercial customers. (Other present rates may be seen in Hearing Exhibit 5.)

3. With regard to Harbor Island's proposed rates, the water user fees for residential service for a one-inch meter are \$22.00 per month base charge and \$3.50 per 1,000 gallons commodity charge. For commercial water service, user fees for a one-inch meter are \$30.00 per month base charge and \$3.50 per 1,000 gallons commodity charge. For landscape irrigation for a one-inch meter, proposed charges are \$22.00 per month base charge and \$3.50 per 1,000 gallons commodity charge. For multiple residential units, the proposed monthly charge is \$19.50 per unit base charge, with a commodity charge of \$3.50 per 1,000 gallons. Proposed use fees for sewer are \$28.00 per month for residential customers and for commercial customers \$28.00 minimum for 10,500 gallons and \$1.40 per 1,000 gallons excess usage. (Other proposed rates may be seen in Hearing Exhibit 5.)

4. Harbor Island asserts that its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to ensure adequate water services for all of its customers. According to the testimony of R. Arnold Ellison, Harbor Island is a private water and sewer utility in Beaufort County, South Carolina, with a potential for additional customers. Ellison states that at the time the present rate structures were approved, the approved amounts were reasonable. Ellison asserts that since that time, there have been continuing expense increases, and he further asserts, that the added costs of operating the Company has increased to a great degree.

5. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission's Staff determined that Harbor Island's operating revenues, operating expenses, and net income for return were \$212,238, \$214,790 and <\$2,552> respectively, for the test year ending October 31, 1997. The Company proposes operating revenues, expenses, and a net income for return of \$294,098, \$257,507, and \$36,591 respectively.

#### **CONCLUSIONS OF LAW**

1. The Company is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and

consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending October 31, 1997, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending October 31, 1997 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. We also allow updated rate case expenses as presented at the hearing. These shall be amortized over three years. Further, at the hearing, we refused to allow the admission of the latest increase in rates from Beaufort-Jasper Water Authority, from whom Harbor Island obtains its water. We have reexamined this matter, and hereby allow these expenses proffered in Hearing Exhibit 3. This Exhibit shall now be entered into the evidence of the case. We believe that the latest known and measurable expenses should be considered by us when setting rates. The Consumer Advocate's objection to the contrary is now overruled.

4. The Commission concludes that after pro forma and accounting adjustments, the Company's test year operating revenues, operating expenses, and net income for return for its system were \$212,238, \$214,740, and <\$2,552> respectively. These figures are reflected in Table A as follows:

**TABLE A**  
**NET INCOME FOR RETURN**

BEFORE RATE INCREASE

Operating Revenues	\$ 212,238
Operating Expenses	<u>214,790</u>
Net Operating Income	\$ <2,552>
Customer Growth	<u>0</u>
Total Income for Return	<u><u>\$ &lt;2,552&gt;</u></u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the “operating ratio” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company’s gross revenues, operating expenses, and customer growth for the test year, the Company’s present operating margin for combined operations is as follows:

**TABLE B**  
**OPERATING MARGIN**

BEFORE RATE INCREASE	
Operating Revenues	\$ 212,238
Operating Expenses	<u>214,790</u>
Net Operating Income	\$ <2,552>
Customer Growth	<u>0</u>
Total Income for Return	\$ <2,552>
Operating Margin	<u>&lt;1.20%&gt;</u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue

requirement of the Company but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers.

See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 11.45% operating margin. In order to have a reasonable opportunity to earn an 11.45% operating margin, the Company will need to produce \$35,380 in total annual operating revenues.



**TABLE C**  
**OPERATING MARGIN**

AFTER RATE INCREASE

Operating Revenues	\$ 247,618
Operating Expenses	<u>220,183</u>
Net Operating Income	\$ 27,435
Customer Growth	<u>930</u>
Total Income for Return	<u>\$ 28,365</u>
Operating Margin	<u>11.45%</u>

10. In order to earn the additional operating revenues necessary to earn an operating margin of 11.45%, additional annual revenues will be required of \$35,380. In order to earn these additional revenues, the Company will have to charge rates as shown in Appendix A to this Order.

11. In considering the requested increase, the Commission has considered the interests of the utility, as well as the customers of Harbor Island. The Commission has determined that the proposed increase is unreasonable, and that a more appropriate increase would be accomplished with the rates as shown in Appendix A attached to this Order.

12. Accordingly, it is ordered that the rates attached as Appendix A are hereby approved for service rendered on or after the date of this Order.

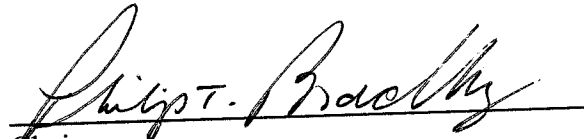
We believe that these rates meet the fundamental criteria of a sound rate structure as discussed above.

13. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of the completion of the described procedure, the approved schedule shall not be charged without written permission of the Commission.


14. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

15. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Acting Executive Director

(SEAL)

## APPENDIX A

Harbor Island Utilities, Inc.  
Arnold Ellison, Jr.  
3B Godfrey Place  
Bluffton, SC 29910

Docket No. 97-262-W/S – Order No. 98-575  
Dated: August 1, 1998

1.	<b><u>Residential</u></b>		
	3/4 " meter	Base	\$ 11.69/ month
		Commodity	\$ 3.50/1,000 gals.
	1 " meter	Base	\$ 13.19/ month
		Commodity	\$ 3.50/1,000 gals.
	1 1/2 " meter	Base	\$ 17.99/ month
		Commodity	\$ 3.50/1,000 gals.
2.	<b><u>Commercial Water Service</u></b>		
	3/4 " meter	Base	\$ 16.19/ month
		Commodity	\$ 3.50/1,000 gals.
	1 " meter	Base	\$ 18.27/ month
		Commodity	\$ 3.50/1,000 gals.
	1 1/2 " meter	Base	\$ 24.91/ month
		Commodity	\$ 3.50/1,000 gals.
3.	<b><u>Landscape Irrigation</u></b>		
	3/4 " meter	Base	\$ 11.69/ month
		Commodity	\$ 3.50/1,000 gals.
	1 " meter	Base	\$ 13.19/ month
		Commodity	\$ 3.50/1,000 gals.
	1 1/2 " meter	Base	\$ 17.99/ month
		Commodity	\$ 3.50/1,000 gals.

#### 4. **Meters used for Multiple Residential Units**

Minimum monthly charge at \$11.69/unit  
Commodity charge of \$3.50/1,000 gallons

NOTE: all rates above are for monthly service. The Utility may bill on a quarterly basis at three times the base rate plus any water used at \$3.50/1,000 gallons.

### FIRE HYDRANT USAGE

1.	Installation Charge	\$ 50.00 *
	Advance Payment	\$ 50.00 *
	Cost per 1,000 gallons	\$ 3.50

### RECONNECTION FEES

1.	Disconnect/Reconnect at Customer's Request	\$ 50.00 *
2.	Disconnect/Reconnect due to Nonpayment	\$ 50.00 *

### TAP FEES

1.	<u>Single Units</u>	
	3/4 " meter	\$ 500.00 *
	1 " meter	\$ 850.00 *
	1 1/2 " meter	\$ 1,000.00 *
	2 " meter	\$ 2,000.00 *
2.	<u>Master Meter for Multiple Units</u>	
	1" – 2"	\$ 500.00 per unit served *
	Greater than 2"	\$ 350.00 per unit plus cost of meter installation *

### ADVANCE PAYMENT

1.	For Water Used During Construction (paid with Tap Fees)	\$ 100.00 *
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### USER FEES – SEWER

1.	Residential	\$ 26.00/ mo.
2.	Commercial	\$ 26.00 min. for 10,500 gal./mo. 1.40 per 1,000 gal excess usage

Sewage flow is determined by using DHEC wastewater unit load allocation.

**TAP FEES – SEWER**

1.	Residential & Trailer Park	\$ 500.00 *
		\$ 250.00/pad *
2.	Commercial: Water supplied through 1 – 1 ½ " meter	\$ 850.00 *

\* No change to rates previously approved.